Realkreditrådet
ASSOCIATION OF
DANISH MORTGAGE BANKS

30. april 2013

Att.:

Secretariat of the Joint Forum

Bank for International Settlements

baselcommittee@bis.org

Your report on "Mortgage insurance": Input on the Danish mortgage credit system

We have read the report "Mortgage insurance: market structure, underwriting cycle and policy implications" issued by the Joint Forum with great interest and welcome the opportunity to comment on the report.

The concept of mortgage insurance as an interaction of mortgage originators with mortgage insurers and underwriters is unknown with respect to the Danish specialized mortgage banks. This is due to the fact that the mortgage banks are highly regulated with maximum loan limits and rules designed to safeguard the solvency of each mortgage bank. Any loans above the statutory maximum limit for the mortgage banks are typically provided by commercial banks on different terms.

Your report uncovers weaknesses connected with mortgage insurance, particularly in times of financial stress as seen in recent years. Given the fact that the Danish system of mortgage credit has proven very safe during more than 200 years - including the crisis in the 1930es and the recent financial crisis - we find it important to reflect that there are other ways of handling risk connected to mortgage loans than the ones set forward in the report's policy recommendations. We would therefore like to take the opportunity to describe some of the characteristics of the Danish mortgage system.

Despite the fact that Denmark as a country felt a hard impact of the financial crisis that began in 2007, the losses on mortgage loans for the specialized mortgage banks were relatively small. Even though the pace of the Danish housing market slowed down the mortgage institution were able to continue the issuing of loans and corresponding mortgage bonds during the whole crisis. No government intervention was needed and business was kept as usual. The bonds of the Danish mortgage banks are among the highest rated mortgage bonds with international credit-rating agencies - almost as high as government bonds - and have remained in high demand throughout the crisis.

An important factor for investor security in Danish mortgage bonds is the balance principle, which secures a very low degree of financial risk. This contributed positively to the financial stability during the crisis. The principle safeguards a very close connection between the payments from the borrowers to the mortgage banks and the mortgage banks' payments to the bond owners. For example, a mortgage bank issues and sells 30-year bonds with a fixed interest of 4 pct. at a value of DKK 1m in order to issue and pay out a 30-year mortgage credit loan with a fixed interest of 4 pct. to

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the amount of DKK 1m. This match-funding means that at all time there are complete transparency in the Danish mortgage system.

Furthermore, an essential element of the Danish system is a creditworthiness assessment of any prospective borrower and a closely tied relationship between borrower and lender throughout the whole period of the loan. In the case of a payment default the property can of course be repossessed but the borrower is personally liable for the loan. The issued bonds are sold but the underlying loans cannot be transferred or sold on and the credit risk therefore remains with the mortgage banks. The mortgage banks have a statutory obligation to hold sufficient reserves to be able to handle such situations. No Danish mortgage bank has ever suspended its payments in the more than 200 years during which the Danish mortgage credit system has been in function.

I of course remain at your disposal should you wish any further information or clarification on the Danish mortgage bank system.

Best regards

Jan Knøsgaard

Deputy Director General